MINUTES

FINANCE & ECONOMIC DEVELOPMENT (TOURISM / VISITOR INDUSTRY / SMALL BUSINESS DEVELOPMENT / SPORTS & RECREATION DEVELOPMENT / OTHER ECONOMIC DEVELOPMENT AREAS) COMMITTEE

January 23, 2013

A meeting of the Finance & Economic Development (Tourism / Visitor Industry / Small Business Development / Sports & Recreation Development / Other Economic Development Areas) Committee of the Council of the County of Kaua'i, State of Hawai'i, was called to order by Councilmember Tim Bynum, Chair, at the Council Chambers, 4396 Rice Street, Suite 201, Līhu'e, Kaua'i, on Wednesday, January 23, 2013, at 12:54 p.m., after which the following members answered the call of the roll:

Honorable Tim Bynum
Honorable Gary L. Hooser
Honorable Ross Kagawa
Honorable Nadine K. Nakamura
Honorable Mel Rapozo
Honorable Jay Furfaro, Ex-Officio Member
Honorable JoAnn A. Yukimura, Ex-Officio Member

Minutes of the January 9, 2013 Finance & Economic Development (Tourism / Visitor Industry / Small Business Development / Sports & Recreation Development / Other Economic Development Areas) Committee Meeting.

Upon motion duly made by Councilmember Nakamura, seconded by Councilmember Kagawa, and unanimously carried Minutes of the January 9, 2013 Finance & Economic Development (Tourism / Visitor Industry / Small Business Development / Sports & Recreation Development / Other Economic Development Areas) Committee was approved.

The Committee proceeded on its agenda item as follows:

Mr. Bynum: I want to announce we have two (2) significant items on the Committee. My intention, if it is in agreement with the Committee, is that we start with the Reserve Policy Ordinance. I have passed out an order...the other one (1) is a Single Audit. So, for those County people that need to be here, there is an order that we put and that order is Housing, Transportation, Public Works, and Finance. We will see if we can get through this today and if we do not, we will get as far as we can. Okay?

There being no objections, the Committee recessed at 12:55 p.m.

There being no objections, the meeting was called back to order at 2:12 p.m., and proceeded as follows:

There being no objections, Bill No. 2457 was taken out of order.

Bill No. 2457 A BILL FOR AN ORDINANCE AMENDING CHAPTER 6, KAUA'I COUNTY CODE 1987, AS AMENDED, RELATING TO GENERAL PROVISIONS RELATING TO FINANCE, ESTABLISHING A RESERVE FUND AND A RESERVE FUND POLICY **[This item was deferred to February 20, 2013.]**

Mr. Bynum: We were about to take this Bill up last time when the Administration asked a two (2) week deferral. Councilmember Nakamura, I have not discussed this with you, but I have an amendment that I put. I was going to ask you to introduce by request.

Ms. Nakamura: That is fine.

Mr. Bynum: Any discussion before...well, first of all if I could have a motion to approve.

Mr. Rapozo moved to approve Bill No. 2457, seconded by Ms. Nakamura.

Mr. Bynum: I have an amendment that I would like to introduce. I am asking Councilmember...

Ms. Nakamura: I will introduce this floor amendment by request. It is for purposes of discussion.

Ms. Nakamura moved to amend Bill No. 2457 as circulated which is attached hereto as Attachment 1, seconded by Mr. Kagawa.

Mr. Bynum: Councilmember Furfaro introduced this Bill, subsequent to that introduction, I met with the County Attorney and Finance on at least two (2) occasions in other meetings trying to address some of their concerns and made some amendments. This is a combination of their input and my view on how this Bill could be. So, you should have in your hand out a Bill that has the Bill as written with the amendment with the changes that are highlighted in yellow. So, using this as a template, I would like to go over and explain the end. We started with the Bill as introduced. The changes are marked in yellow and the purpose of either version of this Bill is to establish a Reserve Fund. It just has some significant differences about how to do that. But all of the figures in both Bills come from CAFR numbers. What this Bill says, is that first thing it does is establish how to measure the reserve. What is the reserve? Under this version it says it is, "unrestricted fund balance which consist of committed fund balance, assigned fund balance and unassigned fund balance in the General Fund in the range of twenty (20) to twenty-five percent (25%)." When you look at the documents that I passed this out previously, about what GFOA and Gasby are kind of the best practices. A Reserve Policy really, in my mind, is a policy managing the General Fund. The General Fund is divided into five (5) categories under Gasby 54. One (1) is non-spendable, restricted, committed, assigned and unassigned. The first two (2) Bills, those funds are not available in any purpose because they have already are non-spendable or restricted. Committed Funds are where the purpose of those funds have been established by this Council. Assigned and unassigned are by definition unrestricted. So, for the purposes of policy, and it is important that we understand this is for policy, not for budgeting. It is for establishing parameters that will perhaps impact budgeting. So, this particular amendment suggests establishing a reserve in the range of twenty (20) to twenty-five percent (25) consisting of those three (3) portions of the CAFR. Any questions about that so far?

Ms. Nakamura: I have a question.

Mr. Bynum: Yes.

Ms. Nakamura: The Committed Fund balance would be part of the reserve?

Mr. Bynum: Would be part of the figure that we use to establish the reserve.

Ms. Nakamura: Why would you use the Committed Fund balance?

Mr. Bynum: Because it is unrestricted. It is an intention for those funds has been established. But that intention can be undone through an Ordinance. So, it is a subjective figure that changes based on the decisions that Council makes about how these funds are going to be used, right? You know, initially I wrote this where the base figure was based on just the unassigned and assigned balances. But from reading GFOA, Committed Funds are not restricted funds. They are ones that we have already budgeted and there is an intention of the highest level of body to...and again, this is for establishing, and I have if necessary, charts that show that formulated that way as well. But for the purpose of this policy, by definition these are unrestricted funds and I believe it is consistent with best practices to establish that as the base figure of what the reserve actually is.

Ms. Nakamura: What would be some examples of Committed Funds, let us just say in the area of public safety?

Mr. Bynum: That would be a question I would ask Finance. Again, this is on the policy level. What I want to say is, I have a similar chart to this one (1) that does what you are saying. But I think it is better practice and as we go through this, you will see it gives us a little more flexibility. So, the second change on page 4, is just the language...repeating that language of what the reserve is. The reserve under this proposal are those three (3) line items that are portions of the General Fund. The next change is where the wording "the County has experienced multiple years of reductions in revenues, attributable to factors including the Council not adjusting Real Property Tax rates as Real Property Tax values have declined." I agreed that it is clear that we have had multiple years of reduction in revenues. Initially it said, "attributable to falling assessed values." But assessed...falling assessed values do not translate into reductions and revenues. They only transfer into reductions and revenues when we fail to adjust the rates to compensate for those. I just believe and it is not the only factor that reduces revenue. In my research of Real Property, there are factors other than assessed values that have been impacted rates which is primarily, I think, in the area of agriculture dedication.

Ms. Yukimura: I have a question.

Mr. Bynum: Yes.

Ms. Yukimura: What was your example of a Committed Fund balance or things that make up the Committed Fund balance?

Mr. Bynum: They are commitments that the County has made based on Ordinances that this Council has passed.

Ms. Yukimura: For example, the commitment of monies every year towards the closure of the Kekaha landfill?

Mr. Bynum: Again, what specifically, I do not believe that is a good example. But I think those are questions we should ask of Finance. I should have a better answer, but I do not. I know that it is funds that have been committed by the highest legislative body of the County, which is us. I do not know if Finance has a quick answer of giving us an example of what would be in the "committed" category of the recent CAFR.

Ms. Yukimura: Well, tell us what is in the Assigned Fund Balance.

Mr. Bynum: That is in the CAFR. It changes every year.

Ms. Yukimura: The amount changes, but what are the assignments?

Mr. Bynum: That is what Gasby 54 has changed. Assignments generally on our County have been monies that were assigned to balance the budget and assigned for self insurance. That would have been the major places we have assigned funds. Now, a couple of years ago when we did the Reserve Fund, some of that Reserve Fund understand Gasby 54 as unassigned and some of it is assigned. We just went through why that change and restatement was made with our Auditors. But if we can...I am going to have to get all the way through this and show some charts to have a clear understanding of how it will operate.

Mr. Rapozo: Mr. chair?

Mr. Bynum: Yes.

Mr. Rapozo: I just have a question. I heard that question asked twice already. Is it possible to at least get somebody from Finance to explain the differences? Before you get...even if you get into your charts, if we are not sure what Committed Fund Balance or Assigned Fund Balance are, it is going to be difficult to follow. If there is a short answer because I think I know. But it may not.

Mr. Bynum: Ernie, is that a question you can field?

There being no objections, the rules were suspended.

ERNEST W. BARREIRA, Budget & Purchasing Director: I have handed to the Council Staff page 46 of the CAFR that defines the fund descriptions and actually that is the simplest way...it is verbatim. It is an easy read. A few sentences per category. I think that would probably be the easiest way. If you would like, I could read it verbatim into the record or distribute copies for all Councilmembers. Whatever your liking is, sir.

Mr. Rapozo: The way I look at the Committed Funds, the Committed Fund Balance, or the encumbrances. In other words, those are fund has it although may not have been spent yet may not have been...actually a check has not been written, but they are committed. They are, in fact, encumbered. In other words, we may have gotten the product or service, but we are just waiting for the check to be written. That is how I understood a Committed Fund?

Mr. Barreira: Yes, sir. If you look at chart we shared with all of you last week, due to the brain trust of both Ann Wooton and Ken Shimonishi, our qualified Budget Analysts, they separated Committed as encumbrances being from the previous year. Those items that were committed funds by waive purchase order or contract that we have to pay. So, the fiscal year came to an end, but because we encumbered those monies they are still payable into the next fiscal year.

Mr. Rapozo: Right. That is where I am confused because I do not think we can use that money in the reserve as this amendment would do because that 4.7 or 4.8 million has to be paid out in the following fiscal year. That is how I understand it. So, in other words, it may have been a work or contract. Something that we had acquired in this fiscal year. But the payment will not be...so we are not, I do not believe, we are at liberty...I am sorry? Tape change. Okay.

There being no objections, the meeting was called back to order, and proceeded as follows:

There being no objections, the Committee recessed at 2:25 p.m..

There being no objections, the meeting was called back to order at 2:28 p.m., and proceeded as follows:

Mr. Bynum: I cannot remember where we left off, other than what I am saying these three (3) line items of the General Fund as reported in the CAFR, established the target for the reserve. Okay? It is not about whether we can spend those monies twice. We cannot. But those three (3) items are by definition under Gasby 54, unrestricted funds. I am proposing that we use those three (3) figures to establish what the reserve amount is. It could be done differently without the Committed Funds. But I do not believe that would be consistent with the recommendations because we can budget differently and impact how much of those funds are committed or not. You know, the purpose of this Reserve Fund is to look at our General Fund balance and have a policy of managing that balance. That policy, I believe, should not be able to be...the numbers should be based on our actual CAFR, not on budgetary decisions that we make that move those figures around into different categories. My belief is that using those three (3) is the appropriate unrestricted fund balance that we are basing this policy on. If the Administration feels like they are budgeting in a way that builds that committed too high, they can budget differently and keep that committed. It basically says to the Administration and to the Council, if we adopt this policy, for the first time we are putting some parameters on how large or small this fund can get and how much of this fund we can use for budgeting purposes. If we do not have those restrictions on, that are objective, then I do not know what is the point of having the policy, if we can just move numbers around and manipulate it differently. Again, this is not for budgeting and spending purposes. It is for setting a policy.

Ms. Yukimura: But it is for a policy that is going to guide our budgeting, right?

Mr. Bynum: That is correct. It will put restrictions on our budgeting.

Ms. Yukimura: I believe we were all briefed by the Administration on the declining.

Mr. Bynum: Declining revenue.

Ms. Yukimura: Not declining revenue. But the increasing gap between expenditures and revenues.

Mr. Bynum: Which we have had for the last two (2) years according to the CAFR.

Ms. Yukimura; One (1) of my questions has been what kind of budgeting policies can we setup to guide us better so we do not get into this kind of situation? I am wondering if what you are trying to get at is that.

Mr. Bynum: Exactly. If I could ask the Committee's indulgence, I want to go through what the changes are and show the charts and talk about how it will be operationalized. Then take questions, as much as possible. So, the first thing is to have a Reserve Policy you have to define what constitutes a reserve. I want to use objective numbers that come from our CAFR, that are real audited numbers. So, this says those three (3) line items constitute or the definition of reserve. Then you have to determine...the next one (1) says, "the Reserve Fund shall be twenty (20) to twenty-five (25) percent of the previous year's actual operating general fund expenditures, encumbrances and General Fund transfers to other funds as indentified in the most recent CAFR."

Ms. Yukimura: Sorry, you are reading from (a) on page 5?

Mr. Bynum: (a) on page 5. Now we are establishing based on actual expenditures and transfers out, the money that we put into Solid Waste and golf, because the General Fund is our balancing fund. It is how we determine how we are doing, so to speak. This is saying that. So, both the original submitted Bill from Councilmember Furfaro and this used the same definition. In terms of you establish that based on General Fund expenditures, encumbrances and transfers out. This is suggesting that the Reserve Fund constitute twenty (20) to twenty-five percent (25%) of that figure. The Bill as introduced, says fifteen (15) to twenty percent (20%). This is a somewhat higher percentage. Now (b) is an addition and a clarification that I think is critically important to this discussion because we are going to establish the General Fund as the reserve. This portion of the General Fund, that is unrestricted as reserve. Then we are saying to the Director of Finance, you may use up to fifty percent (50%) of that Reserve Fund balance for operations, Class 4 working capital and assignment for self-insurance. So, we are saying, whatever we establish as a reserve, half of this can be assigned for the purposes of balancing the budget and self-insurance. The other half has to remain for disaster, which are defined later. The Director of Finance may use the remaining balance of Reserve Fund not utilized for assignment for the non-reoccurring economic fluctuation, significant extreme weather events and initial disaster response. That is (c). Okay? (d) says, if the Reserve Fund balance is greater than twenty-five percent (25%), so we have established a range, say twenty (20) to twenty-five percent (25%). If our Reserve Fund is greater than that, as GFOA says there should be a ceiling and floor and there should be actions when you exceed the ceiling and actions taken when you go below the floor. So, this is the part that addresses what do you do when you go over twenty-five percent (25%). The action is, that the difference shall be used for tax relief which could be refund, rebate, reduction, etcetera, debt service payments, or investments in economic development projects. So, if you have a figure that is above the reserve that is targeted, then we have to develop a plan to bring it within targeted range. The priorities that we would have would be one (1) would be tax relief by refunding to taxpayers, or reducing property taxes in a subsequent year, or we could apply those funds to debt service, or we can invest those funds in non-reoccurring projects that will stimulate our economy and lead to economic development.

Mr. Hooser: Quick question, Chair?

Mr. Bynum: Yes.

Mr. Hooser: So, this as written, we could not simply save those additional funds for a later date?

Mr. Bynum: No. They would have to be identified and the public purse that is here if you read the GFOA says, municipalities want to keep a solid reserve. Our bonding people want to see us keep a solid reserve and have conservative fiscal policies. That is a good thing. To balance that, consumers often do not want government to keep more of their tax money than they need to operate the government. So, finding that balance is what a Reserve Policy is all about. How much funds is it reasonable for the County to hold in reserve? You know, to keep its stability. GFOA says they recommend five (5) to fifteen percent (15%). Then they go on to say, but if you are in a small community, you do not have a very diverse economy and you are subject to things like hurricanes, you may consider a much larger reserve. That is why it is not...this proposal says twenty (20) to twenty-five (25) and not five (5) to fifteen percent (15%) because we meet those criteria. We are a small community with a not diverse economy. By keeping more than a certain amount is unreasonable to me, and as a taxpayer, I do not want you to collect five hundred dollars ($500.00) extra to me to put in the bank to earn interest. I want you to collect money that you use for Police, Fire and roads and okay, you will put some in a reserve. Did I answer your question?

Mr. Hooser: You did. I was just thinking it might be some instances where the Council as a body, a majority might want to utilize those funds for either another purpose that is not listed, or hold those funds in the bank, so to speak, for something that might be coming down the road. It could be a so called fiscal cliff that was just here. So, there might be a reason that this body would want to either spend the funds on something different than what is listed here. Maybe a land opportunity. Maybe there is an opportunity to purchase land or something like that. It basically binds this body to spend the money immediately on these three (3) identified purposes?

Mr. Bynum: Spend the money...well, or come up with a plan.

Mr. Hooser: No, it says...

Mr. Bynum: To bring it within the range.

Mr. Hooser: It has to be used.

Mr. Bynum: Right.

Mr. Hooser: So, it is more than a plan.

Mr. Bynum: But this is the amount of funds that the County holds above.

Mr. Hooser: I understand that.

Mr. Bynum: Twenty-five percent (25%) is a very substantial cash reserve, in my opinion.

Ms. Yukimura: Question?

Mr. Bynum: And this is clarified. Go ahead because some of these questions will be answered as we go through the whole thing. Go ahead.

Mr. Hooser: Okay, I am sorry.

Ms. Yukimura: Well, could we include housing and transportation capital costs?

Mr. Bynum: I would argue that non-reoccurring spending on housing or transportation that does not make a significant contribution to our annual budget would fall under the category of Investment in Economic Development Projects. I mean, if we have a very robust transportation system, it is going to help our economy a lot. So, the key here is not put it into new operations that have ongoing costs. That it is no reoccurring spending.

Ms. Yukimura: But I am not sure that everybody interprets economic development to include housing and transportation, one (1) shot capital costs. I see the connection very clearly. It is going to be reducing the cost of living for people and then that puts more money into the economy, circulating more discretionary income plus it is increasing our infrastructure, you know? So, I see it. But I do not know if everybody else sees it.

Mr. Bynum: Well, that will be determined...and the other thing about a policy, we set this...we hope it is not just for bad economic times and good economic times. It is for good economic times and bad economic times and it stands the test of time. So, that decision about whether an expenditure is an investment in economic development will be determined by the Council, or future Councils. I do not think that is something that needs to be defined in a policy. May I go on? So, first this is if it goes over, replenishment of funds is in 6.4, in the event that funds are not appropriated, the County Administration shall timely propose and approve a financial plan to replenish the General Fund to policy levels. So, this policy says if you go too high, here are the options that you have. If you go too low, you have to develop a plan to bring us back into the range. Depending on the circumstances, strategy to replenish the reserve funds could include reducing expenditures and adoption of revenue-enhancement measures and revenue-enhancement measures may include, but are not limited to long and short-term financing, adjusting Real Property Tax rates, fuel taxes, vehicle weigh taxes, and various other established fees for services. So, if we are running our government and we fall below what we consider a prudent reserve for emergencies, then the Administration has give us a plan to bring it back up into those. They are obviously going to do that either by cutting spending or increasing revenues. Now (C) says efforts shall be made to restore the necessary funds to required reserve policy levels within one year. If a multi-year replenishment plan is required, the plan shall not exceed three (3) years. So, those are the changes in wording that I would like to use some of the handouts that I believe, you have. Does everyone have...it may not look just like this. It may be smaller. So, if I could bring your attention to this chart. These are all CAFR numbers. So, what I would want to say is that we have always had a reserve. It is a fact. The reserve is our General Fund balance and it is been reported broken down in pieces and those terms changes in 2008-2010. So, the current terms that divide it, we have already mention, are non-spendable, restricted, committed, unassigned and assigned. Those five (5) in our CAFR make up. So, this chart shows you the General Fund balance since 1995. Then it has a Column (C), that shows the non-spendable and restricted funds which ends up in the General Fund balance minus the non-spending and restricted. I said this is our target reserve amount. We want to keep that reserve within the twenty (20) to twenty-five (25) percent range should this proposal go forward. Column (E) is the same figure in essence. Now every year we assign a portion of the General Fund to balance the budget and for self-insurance. So, Column (F) shows you the history of how much we have assigned in various years to balance the budget for those two (2) purposes. That leaves unassigned funds, which is Column (G). Now every year we assign funds and you can see if we looked at 2010, for instance, we assigned nineteen million dollars ($19,000,000.00) to the fund from the General Gund to balance the budget. Alright? But at the end of the year, had we actually spent any of those funds? We assigned it to balance the budget. It was in the General Fund. Did we use it? We used it for budgetary purposes, but did we actually spend it? In most years the answer is "no." So, if we look at 2010 as an example, that year not only did we not spend any of the nineteen million dollars ($19,000,000.00) we put in budget, we had revenues fourteen million (14,000,000) in excess. That is in Column (I). In that year, our fund balance increased because we had more revenue than expenditures in the General Fund. Then Column (J) shows for all of these years since '95, the total expenditures and encumbrances and transfers out. So, this is the money that left the General Fund to run our government. Now for all of these years, if we say that Column (D) is the reserve target amount, and reserve (J) is how we established that amount, then what percentage was each year at? That is the last column, okay? It shows you what percentage under this definition, what we were keeping. Let us say we would have had a twenty (20) to twenty-five (25) percent policy. You should have a line graph with a yellow shade on it. Did those get passed out, Scott? I just cannot find mine. It is projected up here. So, using the formula of this proposed reserve policy, these are percentages since 1995. We have run our government and most of them fall in the twenty (20) to twenty-five (25) percent range or kind of in trend that way until 2006, where during the economic run up, our revenues exceeded expenditures pretty dramatically for a number of years. Our reserve went as high as fifty-eight percent (58%). In essence we could have run the entire government for half a year on just reserves. I would argue that those amounts are too great. We should not be holding tens and millions of dollars earning interest that came from our taxpayers. We should get enough money from our taxpayers to run our government and keep a prudent reserve. That is a personal opinion. So, over the last two (2) years as we know and what Finance alerted to us, look our revenues are exceeding expenditures. That is a relatively new thing, and I will not say those things. But I think we should not have allowed that much revenue loss, but we have. But even with those two (2) years of significant differences, we are still at a thirty-six percent (36%) fund balance under this definition. So, if we were to implement this for this year and the next CAFR came and it was twenty-eight percent (28%), the amount above twenty-five pecent (25%), we would have to establish a way to get General Fund balance, the unrestricted balance in that range. In a year like 1999, where they ended the fiscal year at fifteen percent (15%), that would be below our targeted range. We would have to have a plan in the next fiscal year to bring it back to the fund balance range. Now because...does this make sense? Are there any questions at this point? Whether, we use the interpretation...I believe that I would argue that this is the correct figures to use to establish these parameters because as I said earlier, I do not think we should use figures that the Administration or future Councils can manipulate in order to essence to increase or decrease what they show. But you could figure this with all of the General Fund, and the numbers would be different. Or you could figure it and that is the way I originally did this chart, including the committed funds. The real significant thing, and why I said this sets parameters is, the amount of that assignment is restricted to half of what the established reserve is. So, when the Administration brings us a budget, they could not use every dollar, like they did last year. They assigned almost every dollar, right? You cannot do that. Sorry. You can assign half of the reserve and use that for budgetary purposes. If at the end of the year we dipped into that reserve, we have to replenish it. If we had excess revenues and our reserve goes above what is a reasonable amount of cash for the County to carry, then with have to apply it either as a tax refund, rebate, debt service or investment in economic development. Non-reoccurring investments. Most likely CIP kind of projects. Okay? So, I think these changes add some of the language that the Administration requested, that gave them a little more flexibility. But it is consistent with the GFOA and Gasby 54 policies documents that I passed out to everybody several times. So, I would encourage the Council to adopt these changes as they are or have further discussion.

Ms. Yukimura: So, what I am hearing is that this reserve policy that is proposed as an amendment, is a way to discipline ourselves as a County?

Mr. Bynum: Absolutely.

Ms. Yukimura: So, you have this amount that has to be there one (1) way or the other and if you take from it, there is a requirement that you replenish it, so that we do not just put everything into expenditures without having a reserve.

Mr. Bynum: Right now I heard that this year the Big Island's reserve is less than four percent (4%), that is a real crisis. They have basically have little reserve left. I believe that and, I cannot speak for them, but they have been going through difficult economic times and they wanted to maintain a certain level of County services. They wanted to maintain their Public Access Open Space fund, so they dipped into their reserve. But they started with a smaller reserve, somewhere around ten percent (10%). We started this fiscal downturn at forty-five percent (45%) reserve and it went as high as fifty-eight (58). But it has come down to 36.5. My guess is we are on track in the current fiscal year to further dip into that reserve. But not bring it down into the twenty (20) to twenty-five percent (25%) range. When we do the budget this year though we are going to have to be...I hope this Ordinance is in place that puts parameters on the Administration of how much of the Reserve Fund they can use for budgetary purposes. That is going to make them budget differently. Oh, we wanted to use eighteen (18), but we cannot. That means that we have to show revenue or cut expenditures to balance our budget, only being able to use twelve and a half percent (12.5%), in essence of the reserve for budget stabilization is one (1) of the terms used.

Ms. Yukimura: It is an imposition of discipline on the Administration, but also on us as well.

Mr. Bynum: Yes. Absolutely, because we collaboratively pass a budget and the Mayor signs it; right?

Ms. Yukimura: Right. So, it is not like it is only a restriction on one (1) sector of government. It really is a way to restrain ourselves.

Mr. Bynum: I believe so and I did not say that. I keep saying the Administration because they have to give us the first proposal. That proposal will have to fit these parameters. But it also is incumbent on the Council not to change that budget and take it outside of these parameters. There was one (1) other handout that is this white sheet and it just uses the numbers from last two (2) years under the proposal as submitted and the proposed amendment. So, if you look at 2011, it shows you the list of expenditures and encumbrances and transfers out that totaled one hundred twenty-seven (127). In 2012, they totaled one hundred twenty-one (121). Then it shows you what fifteen percent (15%), twenty percent (20%) and twenty-five percent (25%) is of those figures as established under the current Bill. The Bill as submitted, which is fifteen (15) to twenty (20) percent that would be somewhere between nineteen million (19,000,000) and twenty-five million (25,000,000) would be the reserve portion, right? Under the amendment, the reserve would be between twenty-five (25) and thirty-one million (31,000,000). That is twenty (20) to twenty-five percent (25%). In 2011 and in 2012 it would have been twenty-four (24) to thirty (30) because that amount is based on expenditures. We actually had lower expenditures in 2012 than we did in 2011. So, if you look at these numbers based on last year. The reserve was thirteen million (13,000,000) over the target, under the proposed amendment or it was twenty-four million

(24,000,000) over the amendment as proposed by...as originally submitted. Does this chart make sense to everyone?

Ms. Yukimura: Could you just repeat what you just said now?

Mr. Bynum: So at the very top, you are establishing...the reserve is based on a percentage of the previous year's expenditures, encumbrances and transfers out. So. it gives that you figure. I am just showing you for the last two (2) fiscal years, how this policy would work with real numbers based on the last two (2) fiscal years, right? Under the Bill as submitted, in 2011, the reserve target was between nineteen (19) and twenty-five million (25,000,000). That is fifteen (15) to twenty percent (20%). The actual was fifty-six (56). So, twenty-five million (25,000,000) more, right?

Ms. Yukimura: The actual what?

Mr. Bynum: I am sorry twenty-five million (25,000,000) is the reserve. So, fifty-six (56) was the target. We were actually thirty-one million (31,000,000) over in 2011.

Mr. Rapozo: You lost me.

Ms. Yukimura: Fifty-six (56) was the target?

Mr. Bynum: I knew there was a better way to do this. Just stick on the 2011 column, right? The expenditures and transfers out, the total of all of that was one hundred twenty-seven million (127,000,000)...

Ms. Yukimura: May I make a suggestion that we put this up so that the public can follow too?

Mr. Bynum: So of the one hundred twenty-seven million (127,000,000) it shows you what the fifteen (15), twenty (20) and twenty-five percent (25%) figures are, right? So, the Bill as submitted, said we want to keep a General Fund in the range of fifteen (15) to twenty percent (20%). So ,that is nineteen (19) to twenty-five million (25,000,000). Our reserve balance in 2011 was fifty-six million (56,000,000). If you minus the reserve from that, the twenty-five million (25,000,000), the high-end of the reserve, there was thirty-one million dollars ($31,000,000.00) of cash above higher than twenty percent (20%). Okay? The Bill as I proposed amending it, the target would be higher, between twenty-five (25) and thirty-one (31) because it is twenty (20) to twenty-five (25) percent. With me? So, the actual reserve in 2011 was fifty-six million (56,000,000) minus the high-end of the reserve at thirty-one million (31,000,000). Then it was twenty-four million (24,000,000) over. So, had this policy been in place, the following year we would identify that twenty-four million (24,000,000) as either debt relief, debt service...I am sorry, tax relief, debt service or investments in projects that lead to economic development.

Ms. Yukimura: That is the...

Mr. Bynum: But we did not have a Reserve Policy that year. So, now we have 2012, we just got that CAFR. The expenditure amounts were different. So, the reserve target is based on expenditure amounts, right? The reserve target is somewhat different and you see the figures of fifteen (15), twenty (20), and twenty-five percent (25%). So, under the Bill as submitted, the reserve range would be between eighteen (18) and twenty-four million (24,000,000). But in at the end of...in that fiscal year, the reserve as calculated by this proposal was forty-four million (44,000,000) minus the twenty-four million (24,000,000). We were nineteen million (19,000,000) over the reserve amount. If that policy was in effect now, we would have to identify something to bring it down because I hope nobody would disagree with this, that it is not appropriate for the County of Kaua'i to keep a large amount of cash earning us interest, you know, above when we need to operate the government and have a prudent reserve. I am proposing that we set the reserve at twenty (20) to twenty-five percent (25%) which is the largest that I have ever heard a community set this out. I think you would be very, very hard pressed to find a municipality in the Country, right now, that has a reserve at thirty percent (30%). So, open for questions?

Ms. Yukimura: I thought this was going to be a discipline in restraining us from spending money. But in the practical application it looks like it is giving us permission to spend more money.

Mr. Bynum: This policy should be seen for all circumstances. We are in unique circumstances over the last few years. We let our reserve get very high and we have not, in my opinion, managed our revenue and expenditures very well the last four (4) years. We let revenues increase above what we needed and now we have let revenues decrease below what we need. That is a personal opinion. We did this bell curve. It came down this far and we should have leveled it off. But we allowed it to come too far. But if you had this chart for the year of 1999, you would be seeing a deficit. Then under this reserve policy you would have to say wait, we have to increase revenue or cut spending to get our reserve higher, because it is too low. The whole point of this is what is a reasonable amount of reserve for us to keep in? Then when you have established the reserve, how can you access it? You can only access it under Ordinance. Up to half of it can be used and accessed through the annual Budget Ordinance. But the reminder says set aside for true disasters, economic down...unexpected things that tap seriously into our...and every year we get a snapshot not of how we budgeted or planned, but what we actually did. All of this policy is based on actual behavior, not policy considerations.

Mr. Rapozo: I have a question of the Administration. I am not sure if you were going to call them up.

Mr. Bynum: They are here to be a resource.

Mr. Rapozo: Okay. If we could get them up, I have a few questions.

Mr. Bynum: Ross, did you have a question?

Mr. Kagawa: I guess I had one (1) for them also.

Mr. Bynum: Alright. Thank you.

There being no objections, the rules were suspended.

Mr. Rapozo: The presentation just made by Mr. Bynum is quite different from the one we had by your Office a couple of weeks ago. A lot of people who are watching this right now, are saying gosh, the County has a lot of money. I am not sure that this presentation that you provided to us will ever be made available to the public. I do not know. I think it is important that they see that, I think, again, it is a very different snapshot if you will. In fact, one (1) of the discussions that we had in that meeting, was that and I agree with this, that in fact the future, these next couple of years will be pretty difficult times for this County. In fact there was even a suggestion that maybe we defer the Reserve Policy until we get a better understanding of where we stand. I kind of wanted to hear the Administration's position.

Mr. Barreira: Councilmember Rapozo, thank you for the opportunity to review that. You are right. We did spend time individually briefing all Councilmembers on the status of the budget. Budget Analysts, Wooton and Shimonishi, prepared a trend analysis over the past three (3) of four (4) years that did shed some light. I do not think we are disagreeing on issues having to do with the unappropriated surplus, those large amounts of money. Which this year...may I enlist the help of the Council Staff to put up the second to last slide that we had utilized in our presentation? Which gives a good indication of how these funds are actually dispensed. There was no argument that fund balance at the end of fiscal year 12, 6/30/2012 was forty-four million dollars ($44,000,000), 44.6 million. What concerns me in terms of the development of a Reserve Policy is how much it is going to make it difficult for us to achieve balance in the subsequent year if we overly restrict the amounts of money that we can utilize to achieve that necessary balance.

We have reviewed this. Councilmember Rapozo, what we have presented is public record. If it is the request of the Council, we can do that presentation again. But if you look at the disposition of the funds relative to the surplus you can see that there are, as Councilmember Rapozo pointed out, restricted, committed, assigned and unassigned funds. After all is said and done, the remaining fund balance, which from the budget perspective, and I know that Councilmember Bynum has reminded time and time again this is not a budget discussion. But that is why I am here. I am responsible for the development and management of the County budget. So, the remaining fund balances $15.3 million is really the funds that we have available after we dispense of all expenditures in terms of the unappropriated surplus. I terms of the current policy that is being proposed, if you look at last year, the 18.5 million dollars. Just above that, 14.4 million and four million dollars ($4,000,000.00). The 14.4 million was taken from the unappropriated surplus that we utilized to balance the '13 budget. In fact very late in the preparation of the Budget Ordinance just before the final submission in May, we found it necessary to dip into the reserve an additional four million dollars ($4,000,000.00) to achieve balance. So, 18.5 million dollars were identified to utilize in the Fiscal Year '13 budget to achieve the balance that is required by the Charter. So, if this year, going into the Fiscal Year '14 preparation, and I apologize Councilmember Rapozo, my answer is much longer than perhaps you would have wanted.

Mr. Rapozo: No, I think it is important.

Mr. Barreira: In terms of going into Fiscal Year '14, if we kept everything exactly the same as we had been for the past last year knowing your expenditure and revenues remaining the same, then we would need in simplistic terms eighteen million dollars ($18,000,000.00) to balance the budget. You can see based on the remaining fund balance that that number is fifteen million dollars ($15,000,000.00). So, it is a little bit concerning, if I am going to be allowed to use seven million dollars ($7,000,000.00), eight million dollars ($8,000,000.00) million roughly to balance Fiscal Year '14, that is going to place a huge burden on us and on all of here in terms of establishing revenue or identifying necessary reductions in services.

Mr. Rapozo: Can I finish?

Mr. Bynum: Yes, please.

Mr. Rapozo: ...and that is what concerns me is that what...and I know there was something some discussion that anything over the twenty-five percent (25%) would be used as a refund or paying down debt. But my concern I that, if in fact we limit, and I agree with Councilmember Yukimura, that this is almost a way to incentivize the spending and say if we are keeping everything on status quo we are basically going to allow them to continue. But there is no way you could find...with the existing situation worrying with our bond funds and so forth, it would be difficult for you to find seven (70, ten million dollars ($10,000,000.00) to cut. If I told you today to cut ten million dollars ($10,000,000.00) from your budget, it would be almost impossible. I could. But I do not think you can. But what that means is that it would create the necessity to increase revenue, which is taxes. That is my concern. I do not want to see a Reserve Policy, which in my opinion, the Reserve Policy should be for Rainy Day Fund. But be done in a way that would force this County to have to increase revenue. I already see that it is currently stands, that we are going to have to find...I do not think we will have enough to carry over to balance the budget next year, which means we are going to have to look at some kind of revenue generation or some cuts, which obviously, I would assume this Council would say, you know, we have to start cutting the spending versus raising revenue. I guess, is the Administration supportive of the amendment?

Mr. Barreira: The Administration was the first one (1) and before my time so correct my quote if incorrect. But I believe the Administration brought to the Council's...requested through the Council the development of a Reserve Policy because as Councilmember Bynum points out, the financial management literature does advance the concept it is beneficial to have a Reserve Policy. I am not opposed to the Reserve Policy. I would be dishonest if I said the current proposal does not make me a little bit nervous because I think it might put us in a position as soon as it is enacted, for us to take significant action to find resources to either significantly cut spending or substantially enhance the revenue picture. That concerns me.

Mr. Bynum: I am going to put myself in the queue and then Ross and then JoAnn. This slide in inaccurate for discussion. The slide should not be part of this discussion and here is why. These are Budget Ordinances. This is what we assigned to balance the budget. We do not know if we are going to spend any of that money or not. Now I know that we are going to, right because I see the trends that is because of the revenue, right? But that is not significant really in terms of the Reserve Policy other than we are comparing this policy to the situation we are in now. But that is not...this is if we spent all of this money, if we reused all of this eighteen million (18,000,000) and we spent all of the self insurance, then we would have this figure. But we have never spent all of the assigned money. We have never spent all of the self-insured money. For this policy discussion...I loved your discussion until this slide because this slide is not what we are here to discuss. It is not. The fund balance right now is forty-four million (44,000,000). At the end of the year, it may be reduced. I think it likely will be. But it will not be fifteen (15). It will be maybe thirty (30), thirty-five (35). We do not know because we have to get through the fiscal year. This policy should be based on actual figures that are audited. Not impacting by a budget plan that we do not know the outcome of, right? So, this slide misleads because this is not the reserve because we are not going to spend all of that money. That is why I have given you this chart to say of the assigned funds historically, how often have we spent them? The answer is, rarely. The reason spent significantly the last two (2) years, and this is an opinion, is because we have not been managing this economic crisis very well. I think we all know that and know that now it comes time to pay the piper, right? I did make proposals a couple of years ago to try to stem the revenue loss. But they were not enacted.

Mr. Kagawa: Thank you for your work on this. I met with you once and I know you put in a lot of time in this. It seems to me we are comparing two (2) different things. Regarding the same thing, we are talking about the reserve, the fund balance. I want to point to a slide from our Auditor. I just have a question for you Ernie, if you may. When the Auditors come up with our fund balance, they do it the same way as you prepared basically in the previous slide that we were looking at. I noticed that, in fact, those amounts are the same. If you look on the first column, balance future budget shortfalls eighteen million (18,000,000), 508214, that is the same number.

Mr. Barreira: Yes.

Mr. Kagawa: If you add the two (2) under the assigned.

Mr. Barreira: The Budget Analyst utilized CAFR numbers in preparation of that report.

Ms. Yukimura: Can you point to your figures?

Mr. Kagawa: The first column, in General Fund. It also shows all of the committed column with the breakdown. I want to thank the Chair for giving me this piece of accounting here. Being a person that used to do Government Audits, I know that it is the job of the CPA to make sure that the financial statements are fairly stated and that accruals are properly shown to the best they can fairly state it. That is why I tend to agree with yours because I know that we have to take in account what we owe, what we expect to owe otherwise we are not going to be looking at something that is realistic in stating our financial position. I know what Mr. Bynum is saying is not wrong either. His definition of Reserve Fund includes those restricted, committed, assigned all in one (1). He is stating the truth. But we have a difference of opinion as to...and I think what I am hearing from you, if you would want to answer this, would you be more comfortable with assigning a reserve fund that just includes the unassigned fund balance?

Mr. Barreira: From a budget perspective, and the Budget Analyst and I have had numerous discussions about that, from a budget perspective strictly and Councilmember Bynum and I have respectfully had disagreements on this before. That would be the more comfortable and pragmatic approach as far as we are concerned. In terms of the budget, even though that I agree that not all the funds are expended and I have been asked by Councilmembers to please budget tighter . If we budget tighter, the likelihood is going to be that there is going to be a much smaller fund balance as times goes on. It would be more difficult and we would be forced to manage our revenues and our expenses much more tightly.

Mr. Kagawa: Would you say that fifteen million (15,000,000) is something that maybe would be better off shooting towards? I do not know what in percentages that would mean. Maybe ten percent (10%) would be a more realistic number for us? Or fifteen (15)?

Mr. Barreira: Councilmember Kagawa, I think if you ask me if the Reserve Fund was between ten (10) to fifteen percent (15%) in terms of my understanding of the GFOA requirements and what is recommended by even the analysis that has been conducted by our bond Council and people who have reviewed our financial situation, I think we would still be in pretty responsible financial areas at ten (10) to fifteen (15) percent. I think I would be less concerned about setting us up for a significant action that would be needed in terms of revenue enhancements or substantial cost reductions

Mr. Bynum: Ernie, you saw this chart?

Mr. Barreira: I did sir, yes.

Mr. Bynum: So, you know that if this were to pass today, you know what your assigned amount...what you could use for assignment under this policy? Do you know what that is?

Mr. Barreira: On your current proposal, Councilmember Bynum?

Mr. Bynum: Right. Under the 2012 column, how much funds could you use to assign?

Mr. Barreira: I believe based on...I am not real clear, Councilmember Bynum. Can you point me to the figure.

Mr. Bynum: Proposed amendment 2012 on the right-hand side. The reserve amount would be twenty-four (24) to thirty million (30). So, thirty million two hundred seventy-nine (30,279,000), half of that, right? Because you could use half...that is the reserve target. That is the upper end of the target. You could use half of that to balance your budget. So, basically you would have fifteen million (15,000,000) if this policy went in, you would have fifteen million

(15,000,000) you could assign...well, it would have to be for self-insurance and balancing budget. So, it does restrict that to fifteen million (15,000,000). So, if you are planning on doing eighteen (18), no. You are going to have to come up with a different plan. You have to spend less or budget less, not spend less necessarily. Budget less or budget more revenue. You are right, it would put a restriction on. If the policy were ten (10)...if the policy were fifteen percent (15%), your restriction would be nine million (9,000,000), right? That is why I am saying okay, we are a small town. We have traditionally had a conservative approach to budgeting. We kept fairly large fund balances. I am going to agree to allow our County to have up to twenty-five (25). That is pretty unprecedented, actually. Half of that you can use for budgetary stabilization. It is consistent with all of those polices. If we use a different figure like the Administration did initially suggest, use the unassigned fund balance as a reserve, they sent us a memo saying doing that. It would be totally inconsistent with standards of practice and two (2) years ago you assigned every penny. We would have no reserve, zero (0). Those are subjective numbers, right? We should base our policy on actually behavior on numbers that cannot be manipulated by budgetary ways. To do less than that, I think is inconsistent and would bring the County under criticism.

Ms. Yukimura: So, Ernie, you know...can we get Ashley and Scott, can we get this back up? Under the assigned, where there is Fiscal Year 2011 Budget Ordinance which we do not have yet...no, wait we do have.

Mr. Barreira: Yes.

Ms. Yukimura: So unappropriated surplus and use of reserve to balance. You are saying that we are going to...and this is a quote "we found it necessary to put aside these amounts." What made it necessary to put aside these amounts?

Mr. Barreira: When we prepared the Budget Ordinance and defined projected revenues and totality of expenditures, we found it necessary to identify these funds in order to achieve a balance at the end of Fiscal Year 2013 budget.

Ms. Yukimura: That is why we are in this situation of declining...the ratio of declining revenues to expenditures because we keep using the balance from the last year to put it into operating and that is why we get less and less and less. What Councilmember Bynum is suggesting, is that we are disciplining ourselves so we cannot put it into operating and we have to be much tighter. We are quoting you again, "forced to manage our expenditures and revenues more tightly." What he is saying is because we are saying at a certain point we are not going to use...by our own policy, if we choose to impose it on ourselves, we are not going to keep pouring money into expenditures. We are going to use money for capital improvements or tax relief. We are going to use them for one (1) shot...we are not going to continually pour money into operating when we do not have actually the revenues to support the operating. We are just using our surpluses from previous balances. But that gets us into a bind eventually because we are not being honest about how much revenues we really need. That is why I am understanding the discipline that is being suggested by this policy. It will actually stop us from just continually playing catch up until then we have to...we are so used to spending this in operating. But we do not have the real supporting revenues. So, then we really have to increase revenues or we really have to lower costs because we are in this mode of just not seeing that the Emperor has no clothes, then we are moving towards kind of a fiscal cliff if you will, or a fiscal crisis. So, I think I am understanding this. It is a discipline and this assigned...we are just accommodating ourselves by saying oh, the budget before us, well we did not really budget carefully or we did not make sure we had enough revenues to support it. That is why we need this. We cannot set it aside as a reserve. Now somebody tell me if I am inaccurate. I am still trying to figure it out.

Mr. Bynum: That is actually accurate what you just said. If you look at last year, the real numbers, you used fourteen million (14,000,000) of the budget, of the surplus last year. You also had a sixteen million dollar ($16,000,000.00) variance, right? At the end of the year.

Mr. Barreira: We used eighteen million dollars ($18,000,000.00) to balance the budget because at the end of the Ordinance preparation process, we identified another four million dollars ($4,000,000.000) that was needed.

Mr. Bynum: Right, the last day.

Mr. Barreira: I do not of the last day. But before we submitted...before the May submission. Then there were some adjustments here at Council, in terms of the unappropriated surplus.

Mr. Bynum: The chart you are saying what we assigned as a budget that there is only fifteen (15) left. We do not know if we will spend that money.

Mr. Barreira: We have had that exchange.

Mr. Bynum: If you did not have eighteen (18), you had fifteen (15). Well, you could make sure that you budgeted with a smaller variance would be one (1) way to do that. Another way would be is to increase revenue, right? But at this point we probably would not do that. We would say, you know what, we have been managing our budget with very large variances and gosh, now that we are restrained with how much we can assign from the General Fund, we cannot assign the whole thing. We can only assign half of it. We need to be tighter and this variance. If we get that all tightened up and we still do not have enough revenue in your mind to run the government, then we have to increase revenues. Just like any old business, right? So, this does bring in some constraint. We could look back and see if we had that constraint in the past. We can identify the years where we were outside of that constraint. But have I to point out between '95 and 2005 we ran this government fine with this kind of constraint. If we would have had this kind of constraint, we would have been in the range most of the years in the last fifteen (15).

Ms. Yukimura: This ties into what I am concerned about changing Enterprise Funds to Special Funds because if you look...this is Ernie's executive budget prep. I think there might be more you guys do not have the pages numbered.

Mr. Barreira: We did.

Ms. Yukimura: No, you do not.

Mr. Barreira: I gave you my copy, which does not. I apologize. I will forward you a new copy. We will add page number before the presentation.

Mr. Bynum: Page 11.

Ms. Yukimura: The third to the last slide. Eleven (11). You are forgiven if I am the only one (1).

Mr. Bynum: There are no page numbers on hers.

Mr. Barreira: She was given my copy.

Ms. Yukimura: If you look at transfers out, a little bit above the middle of the page. Transfers out, that is transfers out of the General Fund, right?

Mr. Barreira: Yes.

Ms. Yukimura: So, it is like seventeen million (17,000,000), twenty million (20,000,000), twenty-eight million (28,000,000), sixteen (16) and fourteen million (14,000,000). That is because we cut down last year. But then you go to the slide before that, and you will see that the transfers out are to the Enterprise Funds that we want to change to the Special Funds. Contributions out to golf, to sewer, and to Solid Waste. Now I do not know if Solid Waste is an Enterprise Fund right now. But you look at all of those. Those are places where you can balance expenditures with revenues to a certain extent. I acknowledge that you may not try to make a profit or even maybe break even. But when you run them as Enterprise Funds you are running then more like a business.

Mr. Bynum: Councilmember Yukimura, you are now speaking about a different topic.

Ms. Yukimura: No. This is about a need for a reserve and our need for reserve and how we do not. I will not speak too much longer. But I think this have to be run as businesses to the extent possible. If you turn them into Special Funds you are again, moving the discipline of thinking about them in a certain way to a place where they are just a Special Fund that you can keep expending out of it and you can keep transferring into it.

Mr. Bynum: So along those lines I will just say, over the weekend I happened to run into a GFOA policy discussion about this very topic of what is "enterprise," what is "revenue," that you might find interesting.

Ms. Yukimura: I will.

Mr. Bynum: And Ernie, too. I did not read it in-depth. But it seems like the proposals that you are making are consistent with that policy from my first cursory review. I do not think that discredits Councilmember Yukimura's discussion. Are we thinking that golf should break even? That is a discussion we have had around here for many years. But moving on with the Reserve Policy, any other questions for Mr. Barreira? Would you like the floor to make comments, Mr. Barreira?

Mr. Barreira: I will definitely, Councilmember Yukimura, I will forward you a properly numbered report, when I get back to my Office. I apologize.

Ms Yukimura: No, actually do not bother. I can number them from here now. More important are the subsitive issues about how we are going to frame our budgetary discussions and find a way to stop this crisis path we are on.

Mr. Barreira: And thank you for the opportunity to be present to comment on the discussions.

Mr. Rapozo: I have one (1) more question. The slide on the screen, Fiscal Year '12. If we use the 44.7 million, if we use the twenty-five percent (25%) we would have the reserve at 11.25 and of that, fifty percent (50%)

would be five and a half million (5,500,000) available to transfer into the next operating budget year. Does that scare you?

Mr. Bynum: Mr. Rapozo, I am sorry. I think you are misinterpreting. Under the Reserve Policy, the reserve would be thirty million (30,000,000), that was on chart that we went over.

Mr. Rapozo: I saw your chart. But I am using the...this is CAFR numbers here.

Mr. Bynum: Forty-four (44) is the total fund balance.

Mr. Rapozo: Correct.

Mr. Bynum: What we are saying of that balance, what portion should be designate or have as a reserve?

Mr. Rapozo: Right. You said twenty-five percent (25%).

Mr. Bynum: Right. No, it is twenty-five percent (25%) of the previous year's expenditures

Mr. Rapozo: Oh, okay. So, the one hundred twenty (120), the one hundred twenty-one (121). What was that number?

Mr. Bynum: Your target would be roughly thirty million (30,000,000).

Mr. Rapozo: Thirty million (30,000,000)...of which fifteen million (15,000,000). What do we anticipate next year? Do we have an idea?

Mr. Barreira: Based on our best projections, and keep in mind what we are facing in Fiscal Year '14 that we did not face in Fiscal Year '13, is that all of our collective bargaining contracts are up for negotiation. I think it is fair to assume that we will have salary expectations that we are going to have to attend to. If we kept everything flat, I had proposed another eighteen million dollars ($18,000,000.00) would be needed. But now factor in salaries. Even if we...whatever due diligence we exercise to reduce expenses to the extent we can, and minimize growth in government we are still most likely going to be facing a pretty significant challenge in terms of balancing.

Mr. Rapozo: Have we even figured out the three percent (3%) or 3.2 percent, whatever UPW ruled for our County employees?

Mr. Barreira: Budget Analysts have looked at some numbers between three and a half (3.5) to four and a half (4,500,000) million. But that really rough.

Mr. Rapozo: So, that takes to us twenty-one million (21,000,000)?

Mr. Barreira: If we keep consistent and add that, yes. Keep in mind there was...as the Councilmembers all pointed out to us, there was some disproportionate relation just between revenue and expenditures that we feel, that we all agree apparently, from what I understood have to be addressed. We intend to address that the best that we can.

Mr. Rapozo: The three million (3,000,000) you said for the salaries?

Mr. Barreira: That is very rough because we just do not know the exact numbers at this point. We may not even have that for the first submission.

Mr. Rapozo: Does that include the benefits, the OPEB?

Mr. Barreira: I believe that was calculated as well.

Mr. Rapozo: That is entirely for our UPW County employees?

Mr. Barreira: And we have that information that has been conveyed to you in the Fiscal Year '14 instructions. Supplemental instructions went out a few minutes before I arrived here. We have shared all of that with the Council this year. whatever the Department heads have received, you have been given as well.

Mr. Rapozo: One (1) last question. Do you believe that we should hold off on this Reserve Policy until we get a better handling of where we are going to be?

Mr. Barreira: I am not opposed. I would not say to advocate not even looking at a semblance of a Reserve Policy. From a budget perspective, as your Budget and Purchasing Director, I simply want a policy that will be workable and not going to put us in a financial quagmire, both of us the Administration and the Council. Since only the Council can set rates and in terms of revenue. So, I just want something that is achievable, that we can work cooperatively with.

Ms. Yukimura: I would just like to suggest that there are two (2) parts to this Reserve Fund. It is how...first of all, how it is framed and then secondly it is the percentage. I think we first have to decide how we frame it and then what the percentage is? That is one (1). Then two (2), to wait to find out the budget is going to be kind of defeats the purpose of having a Reserve Policy because then you are making all of these budget considerations affect how you are setting it up. You want to set it up and say this is what we are going to live within. To me, that is what you are saying. That is the discipline. Otherwise you keep feeding the ever growing operating expenditures and you keep coming to this fiscal crisis.

Mr. Bynum: Any other questions?

Mr. Hooser: It is not a question, just some discussion.

There being no objections, the meeting was called back to order, and proceeded as follows:

Mr. Bynum: Comments, discussion?

Mr. Hooser: Very good discussion. I applaud the Chair for all the work you have done on this. It is a lot of moving parts to this whole thing. My two (2) main concerns that I find myself thinking about here is one (1) would be really wanting to kind of have a dry run or even a pro forma moving forward budget against the pro forma policy to see what tangible impact it is likely to have on the upcoming budget, to see if there was going to be a need for severe cuts or revenue increases, whatever based on what we know today. So, that is one (1) thought. The other thought I have is the policy as it is written restrict using the additional funds and I understand the principle behind it. But I probably think it needs to be a little broader. Just dealing on economic projects, what does that mean? I am not sure whether it means transportation, affordable housing, open space acquisition. So, I would like a little more flexibility, if you would, that the Council and that is what we are elected to do to make those decisions. If there were excess funds and there were some dramatic needs in County. Maybe one (1) time needs and we have the ability to fund them, we would make those decisions. So, those are the two (2) points that I am not really clear on right now in terms of wrapping my head around these two (2). But those are my concerns.

Mr. Bynum: One (1) way I would respond to that is again, this is a policy. If we had this policy, it would be unlikely we would have large excesses or decreases because we would be more disciplined in keeping it with this range. When I say "we," I mean both the Administration and the Council. Then if there is a tremendous need for this County, as a separate discussion to some extent, but we have the lowest debt of any municipality that I have visited . If we determined it was in our communities interest to build a thirty million dollar

($30,000,000.00) project, we can bond fund that and pay debt service over thirty (30) years. Then it becomes...there are other ways to do significant things, if we choose to do it. This is really about not allowing us to have excesses and low funds balances in the past. That is my response to that.

Mr. Rapozo: This is more than a policy. This is going to be Law. This is what this is. This is a Bill for what is going to possibly become Law. So, it is not just a policy statement. This is something that is going to be mandated. I like Mr. Hooser's recommendation or suggestion of a pro forma because I am afraid of what ramifications could happen. I do not know what they are right now. I am not smart enough to know that. We do not know what the moving parts. I have not seen that budget that is coming across. Some of the numbers we know, but some we do not. I think and I will asked you to look at the slide. I brought this up when it first came up on the floor. The discipline is here. The discipline is that this body here when we do this budget. That is where we need to be disciplined. I know a lot of the talk has been a lot of talk about the Administration. But at the end of the day, this Council approves the budget. You know, a wise man once told me, probably three (3) years ago, two (2) years ago, I think he was still in the Finance Department, on his way out and said I am leaving. Mel, be careful because you are heading for trouble. That is what he told me. He is no longer here and he was right. He was right and you know the last three (3) years I did not support the budget for that purpose because I trusted him enough that he knew where we were headed. We are there. I do not want the public to have this impression that we have all of these millions and millions of dollars, because it is simply not the case. The monies that we have committed, yes, they may not be spent. But they may be spent and we need to be cognizant of that. If we put ourselves in a position where we are forced to raise taxes at some point, I cannot support that. I am concerned that twenty-five percent (25%) reserve...I do not know of any jurisdiction that has a twenty-five percent (25%). There may be some, but I am sure it is not many. Our reserve is that. What we have, the cushion that we have budgeted over the last few years, that is your reserve. That should be your reserve. So, we should not be budgeting a reserve and then creating additional reserves. That is not discipline. That is giving you more opportunities to spend. I think we have to, as a Council, have to say, if the if the last four (4) years we have budgeted twenty-five percent (25%). Then come back next year with a budget that reflects a reduction of twenty-five percent (25%) or twenty percent (20%). That is what I am saying. The Administration every year in the general government budgeting you have a balance of twenty-five percent (25%). Then do not come to us with the same budget. Come to us with a reduction of twenty percent (20%). We will give you a five percent (5%) cushion or seven percent (7%) cushion. So, when your budget comes across to us when it is submitted, your general government expenditures...because this is a trend. This is not one (1) year. This is not an anomaly. This is a trend that we constantly approve a budget that gives the Administration a pretty thick cushion. So, do not come with a budget that is the same as last year. Do not dare come with one (1) that is higher. Come with a budget that is probably reduced by twenty percent (20%). Then we will be in the ballpark. Then we will be dealing with real numbers because Mr. Bynum is right, there are funds that we will not spend. But there is...we do not know yet. It is too early in the year to tell. We may have to. Then what will happen? Then you talk about the fiscal cliff, it will be too late. We will be over the fiscal cliff. Then we will sitting and having the discussion, how much do we have to raise property tax by to make our payments? That is what I do not want to see. That is the message I have. I am not prepared to vote on a Reserve Policy at this time because of that. When I see those numbers drop, when I see the variances come within a reasonable range, then we can start talking about a Reserve Policy. But right now, it is like double dipping. You get the extra at the budget, and then we create another pot here that half you can use for your operational expenses. That is not discipline.

Mr. Bynum: That is not what we are doing.

Mr. Rapozo: Well, I thought I had the floor. Mr. Bynum, you have your opinion and I have mine.

Mr. Bynum: Accuracy is important.

Mr. Rapozo: Well, if you are calling me a liar, that is your call.

Mr. Bynum: I would never do that.

Mr. Rapozo: Well, you saying that I am inaccurate. I am basically saying that, that is CAFR numbers. That is not Mel Rapozo numbers. That is CAFR numbers. That is Audit numbers. That does not lie. It tells me that we budgeted or provided twenty-five percent (25%) more money then was spent in our budget. That is accurate. I am not going to support an additional reserve until I see a better aligning of our budget. If you could put up the other slide real quick? The other one (1) from the Administration. This is part of the problem, right here. If you look at the blue line...I do not know if the TV can see this. The blue line represents our revenue. That represents our income. The County's revenue basically, our Real Property Tax. As you can see it was always budgeted higher than our expenses. In 2009 when you see the two (2) lines cross, 2009, 2010, 2011, 2012, we budgeted more expenditures than revenue. Tell me what business does that and stays in business. That is on a dangerous track to bankruptcy. That is accurate. That is no lie. So, for the people to think that we have all of this money, I am telling you, as long as we are on this track here, we are heading for the cliff. That is fact. That is fact. And people wonder why I voted against the budget, that is why I voted against the budget. Not because I do not like the Mayor or I hate the Administration. No, because like I told you, the wise man told me, Mel you have to tighten it up or this is what is going to happen. He was right and we are there. So, that is all I got.

Ms. Yukimura: The Reserve Policy as I understand it, which Councilmember Bynum is proposing, would stop that problem that we see at the last four (4) years or so because when you put aside a reserve, you are not putting aside more money to spend. You are putting aside money to keep us from going there. That is how I understand the policy. I heard Mr. Barreira say that if we impose this fairly large reserve, they would be forced to reduce those variances in the budget, much more than they are now because they would be limited in what they would be able to use to accommodate those variances or support those expenditures. That is the problem with budgeting with such a variance, because sometimes they can just spend it, too when they should not be spent. You know, it is not only the Administration's responsibility to reduce those variances. It is within our power to cut when comes to us. Not just vote against the budget, but actually propose cuts that would bring everything back in order. What I am understanding, and I am open to correcting if I am not understanding correctly, is this policy would give us a beginning framework. We do not cut item by item. We just start by saying, this is the amount that we put aside and this is the amount that we can spend, we can use to balance the budget. It really is a discipline that will stop that problem over time.

Mr. Kagawa: In summary, I just want to thank Chair Bynum. All the members, I see a common ground where a lot of us are worried about the future. For me, I am kind of uncomfortable with supporting this Bill as it is because of the uncertainty that we all have. Like Mr. Rapozo said, the expenditures just look at the steepness of the red line on the graph. That tells you that we have increased our spending a lot and that just leads me to believe it will be very tough to curb that steepness because I know like our County government, like all governments are very personnel-heavy, and it is going to be very tough to trim a lot of the equipment expenses and so on. We do not want to stop the productivity of our County workers. We want to make sure that they can still get the job done. Our taxpayers do not pay Real Property taxes to have people working and jobs not get done. So, we need to keep our productivity. It will be a tough balance. I look forward to an exciting budget...I do not know if it will be fun. But I thank you Mr. Bynum, you are getting the ball rolling, and the reserve is a great idea. I just do not feel comfortable right now with the uncertainty of the numbers.

Mr. Bynum: Okay, I am going to make a few comments. One (1) is in terms of policy, in a reserve policy, every time for the last three (3) years we start mixing CAFR and budget, there is confusion. So, when there are budget figures up there, those are not appropriate in my view, to determine our policy. The only discussion should be, if we adopt this policy, how does it impact our budgeting going forward? If we adopt this policy, there will be constraints on the budget in terms of how much revenues you can collect? You cannot just raise taxes beyond your needs and get a big reserve. That is one (1) constraint it will put on us. Another is, you have established a very healthy sufficient reserve and now you can use half of this for budgetary purposes. So, now we have constrained how much they can assign to the budget. In 2011, they assigned fifty-one million (51,000,000) of the fifty-three million (53,000,000) that was there, right? They assigned it all. That is why they are allowed to have such big variances. If we say that is all you get and if then you need more, you have to either reduce costs or increase revenues, it constrains that budgeting, right? But when we look at say, well, we have this reserve and we budgeted *x* amount of it and then subtract it and say that means you only have five million (5,000,000) left. No, that is not accurate because at the end of the year, we are not going to spend all of those funds. That is why we look at these numbers. They are real numbers. They are not stated intentions, they are actual performance. I personally...my personal view is that this works. You can go back to...this goes back to '95. But we could go to any year in this and say if we would have had this policy what would it have meant that year? In most years it would have meant, oh you are in the right range. You are budgeting appropriately. If you look at this chart, some of these years...a significant amount of these years, it says hey, you would not have been able to assign that much to balance your budget. You would have...you assigned more than this policy would allow. So, in that year you would have had to have a tighter management of your finances. We have had very loose management of your finance because we have the complacency that comes along with having big reserves. We have used them when we need it. We built them up too high. We need do like any household budget would do, live within the means and have some reserves leftover in case. If the engine blows, I know it is a two thousand dollar ($2000.00) thing. So, if I do not have reserves, I am scared because my engine blew and I am in trouble. For us, it is like, we had a hurricane followed by a war and visitors industry is down *x*. Wow. Good thing that we had that thirty million dollars ($30,000,000.00) sitting there to deal with this catastrophe. So, this brings in budget constraints. It is consistent with the policy parameters as put out by GFOA. If we do not do this year, then we are going to go without any policy or fiscal constraint on our budgeting. Yes?

Ms. Yukimura: I would like to suggest that we defer this matter to...if we can get in some pro formas to show how it could work. Then change the amendment to leave blanks where there is the percentage. So, that we can at least first debate the framing of the reserve and see if we want it to be like the original Bill or as this amendment is proposing. I think that is the first policy discussion. Then, I mean if you go from twenty (20) to twenty-five percent (25%) to ten (10) to fifteen percent (15%), it is a big difference in how it will frame. So, we can set that. There is a lot of different gradations we can do. But I think we do need a Reserve Policy and to just let it slide and not try to move toward an acceptable framing of this prior to our budget. I think would not be very good and would be...it would make our budgeting, I believe, harder when we do come to the budgeting and it actually would help the Administration if they knew ahead of time some of what our parameters are going to be. So, again, you know, the next Committee meeting, I think some of us are going to be gone. So, it would be helpful if we make it the following, which means our 20th meeting is quite heavy. I do not know if you want to make it a separate meeting, an Special Committee meeting with only this item on the agenda. But I think we should not just drop it or let it slide, so to speak. But we need to just keep working at this because I do not hear that our goals are different for the budget. I think we have a disagreement about methodology. I think this is worth working on yet because I think it might be a helpful methodology if we come to the right balance.

Ms. Nakamura: Thank you, Committee Chair, for your work on this. I had a question about this form here. I am looking at the 2012 numbers and when you look at twenty (20) versus twenty-five percent (25%), which would be the reserve set aside. I just wanted to understand that your Bill and subsequent amendment would then say that fifty percent (50%) of that amount could then be used for working capital and self-insurance?

Mr. Bynum: Right.

Ms. Nakamura: So, that would be between twelve (12) and fifteen million dollars ($15,000,000.00)?

Mr. Bynum: No. In this example, in 2012, it would be fifteen (15), roughly fifteen (15)...half of that, thirty million dollar ($30,000,000.00) figure.

Ms. Nakamura: So, twelve (12). On the low-end would be twelve million (12,000,000) and the high-end would be fifteen million (15,000,000).

Mr. Bynum: Right.

Ms. Nakamura: Then twenty-five percent (25%) could be used for non-recurring economic fluctuations, weather or disaster response. That would be in the range of six (6) to 7.5 million? Twenty-five percent (25%) of the that...the thirty million (30,000,000).

Mr. Bynum: Of the thirty million (30,000,000), right.

Ms. Nakamura: So, basically the real reserve...if fifty million (50,000,000) can be used for budgeting purposes...

Mr. Bynum: Fifteen (15).

Ms. Nakamura: Fifty (50). The fifty percent (50%) of what you have.

Mr. Bynum: Yes.

Ms. Nakamura: That really can be included in the budget, is what you are saying. So, really the real reserve is the twenty-five (25), the non-recurring economic fluctuation whether disaster responds. Is that the remaining fifty percent (50%)?

Mr. Bynum: The real reserve...I think it is a semantic thing here. The reserve...the real reserve is the CAFR numbers, right? But the target...when we had the Reserve Policy in the Budget Ordinance, it said fifty percent (50%) of this can be used for budget stabilization. Every Reserve Policy I have ever seen has that kind of parameter. But it was just no defined. This Ordinance defines it. It makes it clear, in my mind. So, the reserve is, and also a little caveats, that is fifteen million (15,000,000) assuming that we decide to use all of that. That is the max, right, that you can use for assignment. Let us say you use ten (10), then what is remaining can be used for those other purposes as well.

Ms. Nakamura: But you are not accounting...so you have fifty (50) for working capital, twenty-five (25) for whatever disaster response and the balance is?

Mr. Bynum: The Director of Finance may use the remaining balance of the Reserve Fund not utilized for non-recurring economic fluctuations, significant extreme weather events on an initial disaster response. So, fifty percent (50%) can be used for budget stabilization. Whatever...let us say they only use ten (10) or fifteen (15), right, or they only use ten (10). Then that would leave twenty million (20,000,000) that could be used in that fiscal year for these purposes, right? But then at the end of the fiscal year, you probably will not use all of the assigned. So, next year you start with different parameters based on previous expenditures and reserve funds. That is the other beauty in this. It all ties to most recent performance, right?

Ms. Nakamura: I think it would be helpful just to go back to what some other Councilmembers said. It is just sort of a...take what you have created here. But work it out, so we can understand. I think Councilmember Yukimura said take it to the next step, so we can see what those numbers, based on last year's numbers translates into and how that would restrict the upcoming budget. What limitations would it place on our budget, our upcoming budget process based on various assumptions?

Mr. Bynum: Well, I apologize if I am not communicating that. But to me that answer is clear. If we adopted this policy today, the reserve would be established at a high-end of thirty million two hundred seventy-nine (30,279,000). Next year's budget, they could use half of that for assignment and thirteen million (13,000,000) would have to be...they at least start to address how the thirteen million (13,000,000) that is above the reserve amount, is going to be allocated. That could be a combination of tax relief, lower taxes, or investment in economic activities that stimulate the economy, or debt relief.

Ms. Nakamura: I think where some of us are getting lost is those next two (2) lines. I do not...it is not clear to me. I know you tried to answer it before. But it is still not clear

Mr. Bynum: Okay. Well, the forty-four million (44,000,000) is what the last year's CAFR said we have unrestricted General Fund, fort-four million (44,000,000). The upper end of the policy, twenty-five percent (25%) of the previous year's expenditures, encumbrances and transfers out is thirty million two hundred seventy-nine (30,279,000). That is the targeted reserve amount at twenty-five percent (25%).

Ms. Yukimura: I think Councilmember Nakamura understands that. It is more how you take it from there. The fifty percent (50%) and the twenty-five percent (25%).

Mr. Bynum: Fifty percent (50%) can be assigned to the budget. The remaining fifty percent (50%) for non-reoccurring economic fluctuations, significant extreme weather events, and initial disaster response. It can be used by Ordinance for one (1) of these three (3) purposes.

Ms. Nakamura: But I believe your Bill says twenty-five percent (25%). Not fifty percent (50%) can be used for the non-recurring.

Ms. Yukimura: No, it says may use the remaining balance of the Reserve Fund, not utilized in Section 6.2(b).

Mr. Bynum: In the original version, I think, says ten percent (10%) for this, fifteen percent (15%) for this. In discussions with the County Attorney and the Administration, the said well what if the initial disaster response was going to use eighteen percent (18%) of that? Why would you restrict it to fifteen (15)? So, to give more flexibility to respond to a disaster, we did not further parse that remaining fifty percent (50%). Is that...

Ms. Yukimura: Yes, that helps.

Mr. Bynum: If you look at the original Bill on page 2. It says operation caps for working capital, fifty percent (50%). That is consistent. Economic fluctuations...I am sorry these numbers, to me, gave too much flexibility. Significant extreme events was limited to fifteen percent (15%). Risk management, uninsured losses, and economic fluctuations, that would like there is a war and our revenues are down dramatically because everybody sells their house or we have climate change. So, rather than say twenty-five (25), fifteen (15), and ten (10) in the amendment, we said this remaining fifty percent (50%). We did not further parse it.

Ms. Nakamura: Thank you very much.

Mr. Hooser: This is a lot to kind of grind through. It is great that everybody is as patient as they are learning. To me, I am trying to simplify it in my head and, correct me if I am wrong. Every year the County has twenty (20) to twenty-five percent (25%) of the money that they do not spend.

Mr. Bynum: Right.

Mr. Hooser: And this Reserve Policy is focused on that amount.

Mr. Bynum: Right.

Mr. Hooser: Let us take some or all of that amount and put it over here in a Special Fund. So, what gets confusing when we say half of it can be used for budget, to me, that is not necessary. I would rather focus on the Rainy Day Fund, the real Reserve Fund that is untouchable except for under certain circumstances. I think if that was set at fifteen million dollars ($15,000,000.00) or whatever, that this is the Rainy Day Fund. This can only be used for these purposes. Then it would be a lot easier to wrap our arms around it, I think. It is the other moving parts that make it much difficult, for me personally to grab a hold of.

Mr. Bynum: I do not disagree with that at all. But if we said this is a reserve and it all had to be used for Rainy Day...for the disaster of for the non-recurring circumstance, then there would be no extra funds left to have any variance. You could not even a two percent (2%) variance.

Mr. Hooser: No. I would say we have twenty (2) to twenty-five million (25,000,000) and we look at that number and say well there has to be a variance. But what would be a prudent amount to set aside in a Rainy Day Fund? So, you carve out of that maybe ten (10) or fifteen (15), whatever is necessary. Not add to it, but carve out of it. So, there is still a variance. The Administration still has their flexibility. But yet we have a Reserve Fund for emergencies and that kind of thing. It is just easier to understand for me personally.

Mr. Bynum: Let me say it simply. Based on last year's expenditures you have thirty million (30,000,000) in the General Fund. Half you can assign for budget. The other half has to be a crisis. That is what this policy is. The reason you allow a portion for budgetary services is that you need surplus for budgetary purposes. This will restrict it. You cannot use it all for that purpose, right?

Mr. Hooser: Right.

Mr. Bynum: You have to use only a portion of it for that purpose and because, let us say you set aside the fifteen million (15,000,000). Very rarely do we dip into that fifteen million (15,000,000) and we hopefully would never spend it all, right? So, that could be...the remainder of that could be there for disaster too. Maybe it is a bigger disaster.

Mr. Hooser: Maybe it is semantics. If I could object. Because I am talking about the same fifteen million (15,000,000). If you just called fifteen million (15,000,000) the Rainy Day Fund. Then it is the same, it seem like.

Mr. Bynum: Well, that is basically what it is doing. Saying, here is the Rainy Day Fund. The amount is based on last year's expenditures. It is not okay for the County to pile up a bunch of cash above it and red-flags go up if we good below the amount we established because then we are not as secure as we need to be. Maybe because we just had a disaster, yes we are more insecure and we need to spend these fund to stabilize everything. But as soon as we can, hopefully within one (1) year, maybe we are more insecure and we need to spend the fund to stabilize everything, but as soon as we can, hopefully within one year, but no more than three (3), we are going to have a plan to resurrect it. That is the basically the parameters of this. If we choose not to act this year, then we will just be like previous years, there is no constraints. We can keep as much money. They can assign every penny of it or if we allow them, because again, they just make the first proposal. I want to say, it is a joint decision in the long run. So, from listening to the dialogue I would like to layout...defer, if there is not votes to pass this out of Committee. It does not look like there is. Defer it and lay out some of those scenario and have another discussion on fresh brains, come up with some more examples. To me, I could go back and say this is what happened between 2003 and 2004. Here is what happened in reality. Here is what would have happened if we had this policy, what changes would that have made to past practices. Maybe that would be helpful. Does that sound okay? But I would hate for us to go into this next budget hearing with no constraints. That is a personal opinion, because we had some last time. Now we already did...we had some last time. Now we are trying to put it in an Ordinance.

Mr. Rapozo: We have constraints. We set the constraints at the budget. That is our job. So, to say that we do not have any constraints if we do not pass this, that is the policy will that we have to muster.

Mr. Bynum: You are correct.

Mr. Rapozo: But I think Mr. Hooser point is correct. That there is one (1) big difference that I noticed between the Chair's Bill and Mr. Bynum's amendment. This is an important one (1), in my mind. In the Chair's Bill, it says that my this fund should be used for non-recurring costs. That is what a Rainy Day Fund is. It is something that was unexpected. But in the other it is not there. The Reserve Fund shall be...the Director of Finance me use of to fifty percent (50%) of the Reserve Fund for operations. That goes back to kind of what you were saying. If they need the money for operations, they need to budget for it because what happens is you end up with a very deceiving budget that comes to the Council because the monies come here, the requests come here. But throughout the year, the requests for the Money Bills come through and in this case, I do not know if it requires a Money Bill, it looks like they can just utilize the funds up to fifty percent (50%). So, if I am not mistaken, I thought that the Reserve Funds should be non-recurring. I mean that is what Reserve Funds are for. That was something that was taken out of the original Bill, which I believe needs to be put back in. It has to be for a non-recurring use. It cannot be because, well we will budget low because we know we can tap into the fund later and not bring it before the budget at the Council Meeting. So, I am not sure if that was intentional, Mr. Bynum. I am not sure if that was an oversight. But I definitely believe, and sounds like what Mr. Hooser was saying, you budget for what you need in your budget. If you can get it past the Council, fine. If not, too bad. If something comes up in the budget year, that was unexpected, then you come into the Reserve Fund. But to assume that can you use the Reserve Fund for your normal operations, that is not a Reserve Fund anymore. It is a slush fund and that is not what we should be passing. I think that is the big difference. I am lean towards supporting the Chair's version because of that, because his makes sure that it is a non-recurring use. Was that an oversight, Mr. Bynum?

Mr. Bynum: No. I am going to respond to that. Then I will go to Councilmember Yukimura. The reason it is that way this is what has been recommended and is the standard of practice. If...they can use half of that, not for...in the way that you termed as ongoing expenses, but for budgetary purposes. Now, if at the end of the year, let us say they put fifteen million (15,000,000) in for budgetary purposes and they spent three million (3,000,000) to fit in ongoing expenses. You have to replace that the next year, right? You have to bring the reserve back up to the full twenty-five (25) or twenty (20) to twenty-five percent (25%). There always has to be some room in the budget. You cannot budget...I think we have all concurred, and the Administration is concerned that the variances have been traditionally very large. They need to be narrowed. But there always will be some variances and the ten (10) to twelve (12) percent is very reasonable.

Mr. Rapozo: I am not saying that we do not budget the variance. I think that the contingency for every Department should be stated. If Public Works needs a twelve percent (12%) contingency, then that is the contingency line in the budget. If is fifteen percent (15%), then it is in the budget though. So, if they have a cost overrun, they have a need to spend money on a recurring expense, then take it out of contingency. I think...I am not saying take away the flexibility. But I do not think it should be in the Reserve Fund. I just believe that should be in their budget. I think we have seen the trends, twelve percent (12%) would actually be a gift. I would be a gift because they are getting twenty-five percent (25%), now and they are not spending it. That is what I am saying.

Ms. Yukimura: I am not clear. I thought this fifty percent (50%) of the Reserve Fund balance for operations were for things that have been budgeted, right?

Mr. Bynum: Yes.

Ms. Yukimura: It is not about things that are not later on after the budget people come in and say I need this and I need that. It is for things that have been budgeted and eventually get committed to.

Mr. Bynum: One half (½) of the Reserve Fund can be used to assign to balance the budget.

Ms. Yukimura: Those are assigned to balance budget are for things that have been budgeted?

Mr. Bynum: Yes.

Ms. Yukimura: So, it is not for things that come in after the budget that has been passed that have not been budgeted for.

Mr. Bynum: You are right. They are not. Let us say it another way. A perfect budget would have expenditures identified that were the same as revenues. It would be flat. Okay? That should be the goal actually in my opinion, of all of our budgeting. That we should determine like our Budget Ordinance says, what are your revenue needs. Then determine how you establish

Upon motion to made by Ms. Nakamura, seconded by Mr. Kagawa, and unanimously carried, Bill No.2457 was deferred to the February 20, 2013 Committee Meeting.

There being no objections, the Committee recessed at 4:18 p.m.

There being no objections, the meeting was called back to order at 4:30 p.m., and proceeded as follows:

CR-FED 2013-02: on FED 2013-01 Communication (12/21/2012) from Councilmember Bynum, requesting the presence of the Director of Finance and the Deputy Director of Finance, to provide an update on the progress of various Departments' and Agencies' corrective actions and projected completion dates as it relates to the findings outlined in the Single Audit Report and Management Advisory Report for the Fiscal Year Ended June 30, 2012. The Department / Agency will be addressed in the following order:

a. Housing Agency
b. Transportation Agency
c. Department of Public Works, Wastewater Division
d. Department of Finance

[Received for the Record]

There being no further business, the meeting was adjourned at 6:35 p.m.

Respectfully submitted,

Allison S. Arakaki
Council Services Assistant I

APPROVED at the Committee Meeting held on February 20, 2013:

TIM BYNUM
Chair, Finance & Economic Development (Tourism / Visitor Industry / Small Business Development / Sports & Recreation Development / Other Economic Development Areas) Committee

them and who pays what portion of that need. In the perfect world, our budgets at the end of the year, our actions would be perfectly budgeted. Well, nobody can do that and it would be so restrictive that Managers would spend too much time worried are they close on budget instead of doing the services for the public. So, there should be variances in budgets. Just not huge ones. We are saying, okay, here is fifteen million (15,000,000) to give yourself flexibility in your budgeting. Not that...you should budget intending to spend that fifteen million (15,000,000). It is the room it gives you to manage your Departments. If you dip into that fifteen million (15,000,000) or whatever it is, okay, it got used a portion of it for ongoing expenses. But you got to replenish it. You have to go back next year and replenish that with revenues or cuts. We get this snapshot of our actual actions and cash flow at the CAFR. That is what we should base our polices on and when we reflect on our performance, what did we actually do. Not what did we budget that we did not do? So, this is standard practiced everywhere for a portion, as far as I know, that a portion of a reserve is set aside usually around fifty percent (50%) for budgetary purposes. The rest is even more restricted.

Mr. Kagawa: Well, you know, it just goes back to our definition of the reserve. The reserve...you are talking about includes amounts that are obligated to be paid. I think we have heard it from our Finance Department that they do not include those amounts. So, I think the thing that is clear to me is that we are approaching the budget. We have heard from the Finance Department that they are concerned about the upcoming budget. They are concerned about having enough money to give all of the Departments to get their jobs done. If we set aside this twenty-five percent (25%), and restricts us in any way from getting out some kind of reasonable budget that can help us to get us to do our job, then maybe we should look at a much lower percentage. So, that it does not restrict us because I think they are worried. We know the Mayor is worried. We issued a memorandum to freeze all of our hires. That does not happen very often. So, I am just concerned. I think your idea is great. If this were three (3), four (4) years ago, it would be a great idea to implement now to try to control our spending. Now it is a different time and I am just worried.

Mr. Bynum: I want to bring this to a conclusion. Then we need to take a caption break in a minute. With the Committee here, we have on the agenda to go through our Single Point Audits. The Housing folks were supposed to be first up and they have a flight at 4:40...5:40. My thing as soon as we finish with this, it looks like we will have some resolution in a few minutes, that we would go in and start this and get as far as we can today.

Ms. Nakamura: Move to defer.

Mr. Bynum: Not that...not quite. Two (2) more comments. The chart that was up there before about expenditures and revenues was a total of all government funds. I would suggest that if we want to look at the concerns about revenue and balance, we look at the General Fund expenditures and revenue balances because that includes our funds that got expended in certain years. Then we have bond funds that come in all at one in big chunks and get expended over years. The General Fund is the managing fund and even when we at General Fund expenditures, we are going to see the same out of whack. Not quite as dramatic as that because there are factors where there are years that we will spend more than we bring in because of bonds, because of Federal Funds that come in big chunks. It is the General Fund that we are...yes, you agree Ernie Barreira? Okay. So, the discussion was deferral.

(January 23, 2013)
FLOOR AMENDMENT

Bill No. 2457, Relating to General Provisions Relating to Finance, Establishing a Reserve Fund and a Reserve Fund Policy

Introduced by: Nadine K. Nakamura, Councilmember (By Request)

Amend Bill No. 2457 in its entirety to read as follows:

"[BE IT ORDAINED BY THE COUNCIL OF THE COUNTY OF KAUA'I, STATE OF HAWAI'I:

SECTION 1. Findings and Purpose. The Council of the County of Kaua'i (the "Council" and the "County," respectively) hereby finds that it is in its best interest to establish a clear financial policy of maintaining a Reserve Fund within the General Fund in the range of fifteen to twenty percent (15-20%) of the previous year's actual operating general fund expenditures, encumbrances and general fund transfers to other funds, as identified in the most recent Comprehensive Annual Financial Report (CAFR).

It has been determined that the County of Kaua'i should create a Reserve Fund and establish a Reserve Fund Policy. The Reserve Fund Policy is established based on industry best practices and recommendations set forth by the Government Finance Officers of America. The Reserve Fund Policy considers a number of risk factors and fiscal requirements that are specific to the County of Kaua'i such as:

- The County's need to retain sufficient funds to ensure the necessary cash flow for County operations;
- The second largest revenue source to the County of Kaua'i, the Transient Accommodation Tax (TAT), is controlled by the State of Hawai'i and not the County of Kaua'i;
- The County will need to fiscally buffer impacts of revenue reductions within the County, such as a decline in real property tax revenue and other miscellaneous taxes and fees;
- The County has experienced economic volatility as a result of Local, State, National and World Wide Economic events and natural disasters, and needs to sustain adequate levels of service through these periods;
- The County has and will need to continue to mitigate State or Federal Government budgetary actions and unfunded mandates that affect County revenues and expenditures;
- The County has experienced multiple years of reductions in revenues attributable to declining real property tax values;

received in mtg 1-23-13

- The County has experienced two significant natural disasters in the last thirty (30) years that had a significant impact on the County budget and the delivery of services, and needs to be able to absorb initial emergency and disaster related costs;
- The County's economic base is not as large or as diversified as other city or county governments; and
- The County will need to be able to absorb liability settlements and deductible costs.

The purpose of this Ordinance is to establish a Reserve Fund and Reserve Fund Policy.

SECTION 2. A new Article entitled "Reserve Fund," is hereby added to Title III, Chapter 6, Kaua'i County Code 1987, as amended, to read as follows:

"ARTICLE ___. RESERVE FUND"

Sec. 6-___.1 Purpose.

(a) Pursuant the Section 19.15(B) of the Charter, the Director of Finance shall establish a Reserve Fund within the General Fund in the range of fifteen to twenty percent (15-20%) of the previous year's actual operating general fund expenditures, encumbrances, and general fund transfers to other funds as identified in the most recent Comprehensive Annual Financial Report (CAFR). The funds shall not lapse at the close of the fiscal year, but shall remain in the fund.

Sec. 6-___.2 Administration.

(a) The Reserve Fund is intended to be used for non-recurring costs and is based on the following estimates and apportioned categories:

Operations: Cash Flow/Working Capital	50%
Economic Fluctuations: Budgetary Stabilization	25%
Significant/Extreme Events: Initial Disaster Response	15%
Risk Management: Non-Insured Losses	10%

Sec. 6-___.3 Appropriation of Funds.

(a) Appropriations from the Reserve Fund shall be made via ordinance and for the specific purposes listed in Sec. 6-___.2. The Reserve Fund shall only be used to provide a short-term solution to maintaining necessary services until revenue growth and/or expenditure reductions are instituted to balance the budget and normalize cash flow.

Sec. 6-___.4 Replenishment of Funds.

(a) In the event that funds from the Reserve Fund are appropriated, the County Council and County Administration shall timely propose and approve a financial plan to replenish the Reserve Fund to prescribed policy levels as specified in Sec. 6-___.1.

(b) Depending on the circumstances, strategies to replenish reserves could include accessing budget surpluses, reducing expenditures and adoption of revenue enhancement measures. Revenue measures may include but are not limited to: long and short-term financing; adjusting real property tax rates; fuel taxes; vehicle weight taxes; and other various established County fees for services.

(c) Effort shall be made to restore the necessary funds to required Reserve Fund Policy levels within one (1) year. If one-third (1/3) or more of the Reserve Fund is utilized, a longer term plan to replenish the reserves may be considered. The replenishment of the Reserve Fund shall not exceed three (3) years."

SECTION 3. New ordinance material is underscored. When revising, compiling, or printing this ordinance for inclusion in the Kaua'i County Code 1987, the underscoring need not be included.

SECTION 4. If any provision of this ordinance or application thereof to any person, persons, or circumstances is held invalid, the invalidity does not affect the other provisions or applications of this ordinance which can be given effect without the invalid provisions or application, and to this end, the provisions of this ordinance are severable.

SECTION 5. Effective Date. This ordinance shall take effect upon its approval.]

BE IT ORDAINED BY THE COUNCIL OF THE COUNTY OF KAUAʻI, STATE OF HAWAIʻI:

SECTION 1. Findings and Purpose. The Council of the County of Kauaʻi (the "Council" and the "County," respectively) hereby finds that it is in the best interest of the County to establish a clear financial policy of maintaining an Unrestricted Fund Balance which consists of the Committed Fund Balance, Assigned Fund Balance, and Unassigned Fund Balance in the General Fund in the range of twenty to twenty-five percent (20-25%) of the previous year's actual operating general fund expenditures, encumbrances and general fund transfers to other funds, as identified in the most recent Comprehensive Annual Financial Report (CAFR).

It has been determined that the County of Kauaʻi should establish the Unrestricted Fund Balance which consists of the Committed Fund Balance, Assigned Fund Balance, and Unassigned Fund Balance in the General Fund as the Reserve Fund and establish a Reserve Fund Policy. The Reserve Fund Policy is established based on industry best practices and recommendations set forth by the Government Finance Officers of America. The Reserve Fund Policy considers a number of risk factors and fiscal requirements that are specific to the County of Kauaʻi such as:

- The County's need to retain sufficient funds to cash flow County operations;
- The second largest revenue source to the County of Kauaʻi, the transient accommodation tax (TAT), is controlled by the State of Hawaiʻi and not the County of Kauaʻi;
- The County will need to fiscally buffer impacts of revenue reductions within the County, such as real property taxes and miscellaneous other taxes and fees;
- The County has experienced economic volatility as a result of local, state, national and world economic events and natural disasters and needs to sustain adequate levels of services through these periods;
- The County has and will need to continue to mitigate State or Federal Government budgetary actions and unfunded mandates that affect County revenues and expenditures;
- The County has experienced multiple years of reductions in revenues attributable to factors including the Council not adjusting real property tax rates as the real property tax values have declined;
- The County has experienced two significant natural disasters in the last thirty (30) years that had a significant impact on the County budget and

delivery of services and needs to be able to absorb initial emergency and disaster related costs;

- The County's economic base is not as large or as diversified as other city or county governments; and
- The County will need to be able to absorb liability settlements and deductible costs.

The purpose of this Ordinance is to establish the Unrestricted Fund Balance which consists of the Committed Fund Balance, Assigned Fund Balance, and Unassigned Fund Balance in the General Fund as the Reserve Fund for the County of Kaua'i and to establish a Reserve Fund Policy.

SECTION 2. A new Article ___, entitled "Reserve Fund," is hereby added to Title III, Chapter 6, Kaua'i County Code 1987, as amended, to read as follows:

"**ARTICLE ___. RESERVE FUND**

Sec. 6-___.1 Purpose.

(a) Pursuant to Section 19.15(B) of the Charter, the Unrestricted Fund Balance which consists of the Committed Fund Balance, Assigned Fund Balance, and Unassigned Fund Balance in the General Fund shall be the Reserve Fund for the County of Kaua'i and there shall be a Reserve Fund Policy.

Sec. 6-___.2 Administration.

(a) The Reserve Fund shall be twenty to twenty-five percent (20-25%) of the previous year's actual operating general fund expenditures, encumbrances, and general fund transfers to other funds as identified in the most recent Comprehensive Annual Financial Report (CAFR).

(b) The Director of Finance may use up to fifty percent (50%) of the Reserve Fund balance for Operations: Cash Flow/Working Capital and Assignment for Self-Insurance.

(c) The Director of Finance may use the remaining balance of the Reserve Fund not utilized in Sec. 6___.2(b) above for Non-Recurring Economic Fluctuations, Significant/Extreme Weather Events, and Initial Disaster Response.

(d) If the Reserve Fund balance is greater than twenty-five percent (25%) of the previous year's actual operating general fund expenditures, encumbrances, and general fund transfers to other funds as identified in the most recent Comprehensive Annual Financial Report (CAFR), the difference shall be used for Tax Relief (Refund, Rebate, Reduction, Etc.), Debt Service Payments, or Investments in Economic Development Projects.

Sec. 6-___.3 Appropriation of Funds.

(a) Except for emergency expenditures pursuant to Section 4.02K of the Kaua'i County Charter, appropriation of the Reserve Fund shall be made via ordinance and for the specific purposes listed in Sec. 6-___.2. The Reserve Fund shall only be used to provide a short-term solution to maintaining necessary services until revenue growth and/or expenditure reductions are instituted to balance the budget.

Sec. 6-___.4 Replenishment of Funds.

(a) In the event that funds from the Reserve Fund are appropriated, the County Administration shall timely propose and approve a financial plan to replenish the General Fund to prescribed policy levels as specified in Sec. 6-___.2.

(b) Depending on the circumstances, strategies to replenish reserves could include reducing expenditures and adoption of revenue enhancement measures. Revenue enhancement measures may include but are not limited to: long and short-term financing; adjusting real property tax rates; fuel taxes; vehicle weight taxes; and various other established fees for services.

(c) Effort shall be made to restore the necessary funds to required Reserve Fund Policy levels within one (1) year. If a multi-year replenishment plan is required, the plan shall not exceed three (3) years."

SECTION 3. Ordinance material to be repealed is bracketed. New ordinance material is underscored. When revising, compiling, or printing this ordinance for inclusion in the Kaua'i County Code 1987, the brackets, bracketed material, and underscoring need not be included.

SECTION 4. If any provision of this ordinance or application thereof to any person, persons, or circumstances is held invalid, the invalidity does not affect the other provisions or applications of this ordinance which can be given effect without the invalid provisions or application, and to this end, the provisions of this ordinance are severable.

SECTION 5. Effective Date. This ordinance shall take effect July 1, 2013."

(Material to be deleted is bracketed. New material is underscored. All material is new)

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